

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL
ÁREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE LOIZA
AUDITORÍA 2012-2013
30 DE JUNIO DE 2013**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2013

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2013**

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

CARLOS R. DIAZ, CPA, PSC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Municipal Legislative Body
Municipality of Loíza
Loíza, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Municipality of Loíza, Puerto Rico** as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the **Municipality of Loíza, Puerto Rico's** basic financial statements as listed in the table of contents. We did not audit the financial statements of the business type activities.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Brisas de Loíza Project which represent 100% of total assets, net position (deficiency) and revenue of the business type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Espiritu Santo Project, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.



MEMBER:

American Institute of Certified Public Accountants
Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualification

The accounting records of the Municipality of Loíza related to interfund transactions and accounts payable were not adequate. Accordingly, we were unable to obtain sufficient evidence to support and satisfy ourselves about the amount recorded in each major funds and aggregate remaining funds information as due from/due to other funds and accounts payable, stated at \$2,306,362 and \$2,129,447, respectively, in the total governmental funds column of the balance sheet.

Qualify Opinions

In our opinion, based on our audit and the report of other auditor, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the **Municipality of Loíza, Puerto Rico** as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 to 10 and 39 to 40, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Loíza, Puerto Rico's** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effect on the supplementary information of the matter discussed in the Basis of Qualified Opinion paragraph, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014, on our consideration of the **Municipality of Loíza, Puerto Rico's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Municipality of Loíza, Puerto Rico's** internal control over financial reporting and compliance.



Carlos R. Díaz CPA, PSC
License No. 275
Expire December 1, 2015

October 27, 2014
Aguas Buenas, Puerto Rico

The stamp No. **E107076** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

Management of the *Municipality of Loiza* of the Commonwealth of Puerto Rico (the "Municipality") provides this *Management's Discussion and Analysis* of the Municipality's basic financial statements as an overview and analysis of the financial activities of the Municipality for the fiscal year ended **June 30, 2013**. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The Municipality's in the Governmental Activities has reported assets and net assets amounting to **\$32,496,630** and **\$11,869,612** respectively, in the accompanying statement of net assets, of which the most significant assets are capital assets amounting to **\$27,637,283 (85 percent of total Municipality's assets)**.
- The Municipality in the same activities has reported total liabilities amounting to **\$20,627,018** in the accompanying statement of net assets, of which the most significant liabilities are bonds, notes and other long-term debt amounting to **\$13,171,088 (64 percent of total liabilities)**.
- The Municipality has reported total revenues amounting to **\$17,829,760** in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances-Gubernamental Funds, for the Fiscal Year Ended **June 30, 2013**. The most significant revenues amounting in this statement are grants and entitlements and taxes were amounting to **\$9,606,937 (54 percent of total revenues)** and **\$4,756,208 (27 percent of total revenues)**, respectively.
- The Municipality has reported a change in net position of revenues over expenditures amounting to **(\$773,933)** in the accompanying statement of activities.
- The Municipality's governmental funds reported combined ending fund balances of **\$1,241,002**.
- The Municipality has reported a deficit for the general fund amounting to **(\$4,901,073)**.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Municipality's financial statements include three components: **(1)** the government-wide financial statements, **(2)** the fund financial statements, and **(3)** the notes to the financial statements (**collectively known as the basic financial statements**).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUE)
FOR THE YEAR ENDED JUNE 30, 2013**

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended **June 30, 2013** even if cash involved have not been received or paid. The government-wide financial statements include: **(1)** the statements of net assets and **(2)** the statement of activities.

Statement of Net Assets

The statement of net *assets* presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (**equity**). Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

Statement of Activities

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended **June 30, 2013**. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (**such as uncollected taxes and earned but unused vacation leave**). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (**such as federal grants**). Most services provided by the Municipality fall into this category, including culture and education, general government, health and sanitation, public safety, public housing and welfare, etc.

Fund Financial Statements

The Municipality's fund financial statements, which consist of: **(1)** the balance sheet – governmental funds and **(2)** the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results of operations of the Municipality's governmental funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUE)
FOR THE YEAR ENDED JUNE 30, 2013**

Fund Financial Statements (Continue)

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

The fund financial statements focus on: **(1)** individual parts of the Municipality's government and **(2)** reporting the Municipality's operations in more detail than the government-wide financial statements. For financial reporting purposes, the Municipality classifies its funds within the following fund categories: **(1)** general fund, **(2)** debt service fund, **(3)** permanent improvement fund and **(4)** capital projects funds (collectively known as the "governmental funds").

Governmental funds are used to account for all of the services provided by the Municipality. Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year **(June 30, 2013)**. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Municipality's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, that is, evaluating the Municipality's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions.

For financial reporting purposes the Municipality has four major funds: **(1)** the general fund **(2)** the debt service fund **(3)** permanent improvement fund.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUE)
FOR THE YEAR ENDED JUNE 30, 2013**

Government-wide Financial Statements Summary

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, assets exceeded liabilities by **\$11,869,612** at **June 30, 2013**.

As previously discussed, by far the largest portion of the Municipality's net assets reflect its investment in capital assets (**e.g., land, buildings, machinery, equipment and all other property**), less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Otherwise, Municipality's Basic Financial Statement, not present increase in capital actives and accrued depreciation expenses, because al the time prepare the financial statement, Municipal Administrative was reevaluating actives files to stablish of capitalization. The following is a condensed presentation of the Municipality's financial position and results of operations, as reported in the government-wide financial statements including its component unit, Brisas de Loiza Proyect:

Condensed Statement of Net Assets:

	<u>June 30, 2012</u>	<u>June 30, 2013</u>
Current assets	\$ 3,593,733	\$ 4,859,347
Capital assets	<u>\$ 27,116,805</u>	<u>\$ 27,637,283</u>
Total assets	<u>\$ 30,710,538</u>	<u>\$ 32,496,630</u>
Current liabilities	\$ 6,230,062	\$ 7,455,930
Non-current liabilities	<u>\$ 11,836,930</u>	<u>\$ 13,171,088</u>
Total liabilities	<u>\$ 18,066,992</u>	<u>\$ 20,627,018</u>
Net assets/(liabilities):		
Invested in capital assets, net of related debt	\$ 22,280,092	\$ 21,867,957
Restricted	\$ 4,829,384	\$ 6,139,708
Unrestricted	<u>\$(14,465,930)</u>	<u>\$(16,138,053)</u>
Total net assets	<u>\$ 12,643,546</u>	<u>\$ 11,869,612</u>

An additional portion of the Municipality's net assets (**1 percent**) represents resources that are subject to restrictions on how they may be used. At the end of the current fiscal year, the Municipality has reported positive balances in two categories of net assets.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUE)
FOR THE YEAR ENDED JUNE 30, 2013**

Condensed Statement of Activities:

	<u>June 30, 2012</u>	<u>June 30, 2013</u>
Revenues:		
Program revenues:		
Charges for services	\$ 409,263	\$ 412,159
Operating grants and contributions	\$ 521,733	\$ 468,500
Capital grants and contributions	<u>\$ 2,756,249</u>	<u>\$ 1,496,564</u>
	<u>\$ 3,687,245</u>	<u>\$ 2,377,223</u>
General revenues:		
Property taxes	\$ 2,845,721	\$ 3,289,952
Municipal license taxes	\$ 532,977	\$ 344,970
Sales and use taxes	\$ 691,237	\$ 895,758
Construction excise tax	\$ 625,128	\$ 225,528
Grants and entitlements	\$ 6,833,357	\$ 7,641,045
Rent	\$ 32,220	\$ 36,570
Licenses and permit	\$ 10,050	\$ 4,850
Interest	\$ 81,036	\$ 71,720
Other	<u>\$ 3,232,471</u>	<u>\$ 3,356,347</u>
	<u>\$18,571,442</u>	<u>\$18,243,963</u>
Expenses:		
General administration	(\$ 7,262,398)	(\$ 8,409,677)
Public safety	(\$ 1,381,787)	(\$ 1,374,842)
Education, culture and recreational	(\$ 804,520)	(\$ 867,940)
Community development	(\$ 927,034)	(\$ 953,047)
Public works and sanitation	(\$ 4,073,355)	(\$ 5,146,848)
Health and welfare	(\$ 2,628,097)	(\$ 1,379,745)
Interest	(\$ 398,910)	(\$ 434,737)
Business type-activities:		
Housing	(\$ 402,709)	(\$ 378,994)
Interest	<u>(\$ 75,679)</u>	<u>(\$ 72,066)</u>
	<u>(\$17,954,489)</u>	<u>(\$19,017,896)</u>
Change in net assets	\$ 616,953	(\$ 773,933)
Net assets – at beginning of year	<u>\$ 12,026,593</u>	<u>\$ 12,643,545</u>
Net assets – at end of year	<u>\$ 12,643,546</u>	<u>\$ 11,869,612</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUE)
FOR THE YEAR ENDED JUNE 30, 2013**

Fund Financial Statements Summary

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the Municipality's *governmental funds* is to provide information on near-term inflows, outflows, and balance of *spendable resources*. Such information is useful in assessing the Municipality's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of fiscal year. The following is a condensed presentation of the Municipality's balance sheet and results of operations of governmental funds:

Condensed Balance Sheet – Governmental funds:

	<u>June 30, 2012</u>	<u>June 30, 2013</u>
Total Assets – Major Funds	\$ 2,555,236	\$ 2,592,826
Total Assets – Nonmajor Funds	<u>\$ 2,905,060</u>	<u>\$ 4,312,239</u>
Total assets	<u>\$ 5,460,296</u>	<u>\$ 6,905,065</u>
Total Liabilities – Major Funds	\$ 5,163,390	\$ 4,972,072
Total Liabilities – Nonmajor Funds	<u>\$ 512,298</u>	<u>\$ 691,991</u>
Total liabilities	<u>\$ 5,675,688</u>	<u>\$ 5,664,063</u>
Fund Balances – Major Funds	\$ 2,439,299	\$ 2,521,827
Fund Balances – Nonmajor Funds	\$ 2,392,762	\$ 3,620,248
Unassigned	<u>\$ (5,047,453)</u>	<u>\$ (4,901,073)</u>
Total Fund Balance	<u>(\$ 215,392)</u>	<u>\$ 1,241,002</u>

Condensed Statement of Operations – Governmental funds:

Total Revenues – Major Funds	\$14,879,138	\$15,686,973
Total Revenues – Nonmajor Funds	<u>\$ 3,279,745</u>	<u>\$ 2,142,787</u>
Total revenues	<u>\$18,158,883</u>	<u>\$17,829,760</u>
Total expenditures – Major Funds	\$16,535,869	\$15,458,064
Total expenditures – Nonmajor Funds	<u>\$ 4,201,514</u>	<u>\$ 4,345,301</u>
Total expenditures	<u>\$20,737,383</u>	<u>\$19,803,365</u>
Other financing sources (uses) Major	\$ -0-	\$ -0-
Other financing sources (uses) Nonmajor	820,000	\$ 3,430,000
Revenues Over (under) Expenses – Major	(\$ 1,656,731)	\$ 228,909
Revenues Over (under) Expenses – Nonmajor	<u>(\$ 101,769)</u>	<u>\$ 1,227,486</u>
Fund Balance at beginning of year	<u>\$ 1,543,108</u>	<u>(\$ 215,392)</u>
Fund Balance at end of year	<u>(\$ 215,392)</u>	<u>\$ 1,241,003</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUE)
FOR THE YEAR ENDED JUNE 30, 2013**

Capital Assets and Debt Administration

a) Capital Assets

The Municipality has invested **\$39,490,805** in capital assets used in governmental activities, which have an accumulated depreciation and amortization of **\$12,861,057** at June, 30, 2013. The net capital assets increased during the current fiscal year due to the current fiscal year capital additions **\$1,534,743**, which were partially offset by the depreciation and amortization expense.

b) Debt Administration

The Municipality finances a significant portion of its construction activities through bond and note issuances, and through state and federal grants. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes.

At June 30, 2013, the Municipality's total bonded debt amounted to **\$12,394,540**, consisting of bonds (**\$11,645,100**) and notes (**\$749,440**) payables. Such debt is backed by the full faith and credit of the Municipality.

Financial Contact

The Municipality's financial statements are designed to present users (**citizens, taxpayers, customers, investors and creditors**) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer on the 2nd. floor of the **Loiza City Hall, Loiza, Puerto Rico**.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
STATEMENT OF NET POSITION
AS OF JUNE 30, 2013**

PRIMARY GOVERNMENT

ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS – TYPE ACTIVITIES	TOTAL
Cash and cash equivalents	\$ 120,068	\$ 64,495	\$ 184,563
Cash with fiscal agent	4,175,572		4,175,572
Accounts receivable, sales tax	55,655		55,655
Due from other governmental agencies	231,993		231,993
Other assets	15,415	21,639	37,054
Restricted cash		174,510	174,510
Capital assets, net	<u>26,629,748</u>	<u>1,007,535</u>	<u>27,637,283</u>
Total Assets	<u>31,228,451</u>	<u>1,268,179</u>	<u>32,496,630</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued expenses	2,332,893	34,171	2,367,064
Unearned income	377,625		377,625
Due to other agencies	850,629		850,629
Long-term debt:			
Due within one year	3,822,063	38,549	3,860,612
Due in more than one year	<u>11,339,000</u>	<u>1,832,088</u>	<u>13,171,088</u>
Total liabilities	<u>18,722,210</u>	<u>1,904,808</u>	<u>20,627,018</u>
Net Position:			
Invested in capital assets, net of related debt	22,731,059	(863,102)	21,867,957
Restricted for:			
Debt service	2,521,827		2,521,827
Replacements and others		174,510	174,510
Capital project and others	3,443,371		3,443,371
Unrestricted	<u>(16,190,016)</u>	<u>51,963</u>	<u>(16,138,053)</u>
Total Net Position (deficiency)	<u>\$ 12,506,241</u>	<u>\$ (636,629)</u>	<u>\$ 11,869,612</u>

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	<u>EXPENSES</u>	<u>CHARGE FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>NET (EXPENSE)/REVENUE</u>
<u>PROGRAM REVENUES</u>					
FUNCTIONS AND PROGRAMS					
Governmental activities:					
General administration	\$ (8,409,677)		\$ 85,586		\$ (8,324,091)
Public safety	(1,374,842)				(1,374,842)
Education, culture and recreational	(867,940)	\$ 828			(867,112)
Public relation, tourism and citizen affairs	(953,047)				(953,047)
Public works and sanitation	(5,146,848)			\$1,496,564	(3,650,284)
Health and welfare	(1,379,745)		382,914		(996,831)
Interest	(434,737)				(434,737)
Total governmental activities	<u>(18,566,836)</u>	<u>828</u>	<u>468,500</u>	<u>1,496,564</u>	<u>(16,600,944)</u>
Business type-activities:					
Housing	(378,994)	411,331			\$ 32,337
Interest	(72,066)				(72,066)
Interest	(451,060)	411,331			(39,729)
Total	<u>\$(19,017,896)</u>	<u>\$412,159</u>	<u>\$468,500</u>	<u>\$1,496,564</u>	<u>\$16,640,673</u>

(Continue)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Net (expense)/revenue	<u>\$(16,600,944)</u>	<u>\$ (39,729)</u>	<u>\$(16,640,673)</u>
General revenue:			
Taxes:			
Property taxes	3,289,952		3,289,952
Municipal tax	344,970		344,970
Sales tax	895,758		895,758
Construction excise tax	225,528		225,528
Grants and entitlements	7,641,045		7,641,045
Rent	36,570		36,570
Licenses and permit	4,850		4,850
Interest	68,848	2,872	71,720
Other	<u>3,356,347</u>	<u> </u>	<u>3,356,347</u>
 Total general revenues	 <u>15,863,868</u>	 <u>2,872</u>	 <u>15,866,740</u>
 Changes in net position	 (737,076)	 (36,857)	 (773,933)
 Net position at beginning of year	 <u>13,243,317</u>	 <u>(599,772)</u>	 <u>12,643,545</u>
 Net position at end of year	 <u>\$12,506,241</u>	 <u>\$(636,629)</u>	 <u>\$ 11,869,612</u>

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2012

	MAJOR FUNDS			
	GENERAL FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash:				
Cash in bank	\$ 34,111		\$ 85,957	\$ 120,068
Cash with fiscal agent		\$2,487,645	1,687,927	4,175,572
Receivables:				
Due from other governmental agencies			231,993	231,993
Due to other funds			2,306,362	2,306,362
Sales tax	21,473	34,182		55,655
Other	<u>15,415</u>	<u> </u>	<u> </u>	<u>15,415</u>
Total assets	<u>\$ 70,999</u>	<u>\$2,521,827</u>	<u>\$4,312,239</u>	<u>\$ 6,905,065</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable and accrued expenses	1,492,572		636,875	2,129,447
Unearned income	322,509		55,116	377,625
Due to other fund	2,306,362			2,306,362
Due to other agencies	<u>850,629</u>	<u> </u>	<u> </u>	<u>850,629</u>
Total liabilities	<u>4,972,072</u>	<u> </u>	<u>691,991</u>	<u>5,664,063</u>
Fund balance				
Restricted for:				
Debt service		2,521,827		2,521,827
Other purposes			3,620,248	3,620,248
Unassigned	<u>(4,901,073)</u>	<u> </u>	<u> </u>	<u>(4,901,073)</u>
Total fund balance	<u>(4,901,073)</u>	<u>2,521,827</u>	<u>3,620,248</u>	<u>1,241,002</u>
Total liabilities and fund balance	<u>\$ 70,999</u>	<u>\$2,521,827</u>	<u>\$4,312,239</u>	<u>\$ 6,905,065</u>

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
AS OF JUNE 30, 2013

Fund balances in governmental funds	\$ 1,241,002
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	26,629,748
--	------------

Long-term liabilities and accrual expenses are not due and payable in the current period and therefore are not reported in the governmental funds:

Bonds and notes payable	(11,645,100)
Compensated absences	(2,260,619)
Claims and judgments	(505,904)
Accrued interest	(203,446)
Notes payable CRIM	<u>(749,440)</u>

<i>Net position of governmental activities</i>	<u>\$ 12,506,241</u>
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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	MAJOR FUNDS			TOTAL GOVERNMENTAL FUNDS
	GENERAL FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	
Revenues:				
Taxes:				
Property taxes	\$ 2,342,203	\$ 947,749		\$ 3,289,952
Municipal taxes	344,970			344,970
Sale tax	475,001	420,757		895,758
Construction excise tax	225,528			225,528
Licenses and permits	4,850			4,850
Interest	66,856	1,973	\$ 19	68,848
Rent	36,570			36,570
Grants and entitlements	7,464,169		2,142,768	9,606,937
Other	<u>3,356,347</u>			<u>3,356,347</u>
Total Revenues	<u>14,316,494</u>	<u>1,370,479</u>	<u>2,142,787</u>	<u>17,829,760</u>
Expenditures:				
General administration	7,365,340		317,803	7,683,143
Public safety	1,280,908			1,280,908
Education, culture and recreation	713,386		102,239	815,625
Public works	2,768,231		3,710,355	6,478,586
Community development	887,931			887,931
Health and welfare	1,081,758		214,904	1,296,662
Debt service:				
Principal		951,900		951,900
Interest		<u>408,610</u>		<u>408,610</u>
Total expenditures	<u>14,097,554</u>	<u>1,360,510</u>	<u>4,345,301</u>	<u>19,803,365</u>
Excess of revenue over expenditures	218,940	9,969	(2,202,514)	(1,973,605)
Other financing sources (uses):				
Operating transfer in		74,231		74,231
Operating transfer out	(72,559)	(1,672)		(74,231)
Proceed from loan			<u>3,430,000</u>	<u>3,430,000</u>
Total other financing sources	<u>(72,559)</u>	<u>72,559</u>	<u>3,430,000</u>	<u>3,430,000</u>
Excess of revenues and other financing source over (under) expenditures and other financing sources	146,381	82,528	1,227,486	1,456,395
Fund balance at beginning of year	<u>(5,047,454)</u>	<u>2,439,299</u>	<u>2,392,762</u>	<u>(215,393)</u>
Fund balance at end of year	<u>\$ (4,901,073)</u>	<u>\$ 2,521,827</u>	<u>\$ 3,620,248</u>	<u>\$ 1,241,002</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Net change in fund balances – total governmental funds \$ 1,456,395

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 1,534,743

Depreciation expense on capital assets is reported in the statement of activities, but do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in the governmental funds. (918,600)

Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (3,430,000)

Governmental payments of long-term debts as expenditures, whereas the payment reduces the long-term obligations in the statement of activities:
Notes and bonds 951,900

Change in accruals which do not require the use of current financial resources:
Interest (26,127)
Accrued vacations (305,387)

Changes in Net Position of Governmental Activities \$ (737,076)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
PROPRIETARY FUND STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013**

ASSETS

**PROPRIETARY FUND
BRISAS DE LOÍZA PROJECT**

Current Assets:

Cash		\$	64,495
Other assets			<u>21,639</u>
			<u>86,134</u>
Property and Equipment			1,007,535
Restricted deposits			<u>174,510</u>
			<u>\$1,268,179</u>

LIABILITIES AND NET POSITION

Liabilities:

Current liabilities:

Current maturities of mortgage note		\$	21,420
Accounts payable and accrued expenses			<u>38,549</u>
			<u>59,969</u>

Long-term debt liabilities:

Mortgage note, net of current maturities			1,832,088
Tenants deposits held in trust			<u>12,751</u>

1,844,839

1,904,808

Net position (deficiency)

(636,629)

\$1,268,179

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
STATEMENT OF ACTIVITIES PROPERTY FUND
YEAR ENDED JUNE 30, 2013**

	<u>BRISAS DE LOÍZA PROJECT</u>
Revenues:	
Rent	\$ 411,331
Financial	<u>2,872</u>
Total revenues	<u>414,203</u>
Expenses:	
Administrative	144,493
Utilities	14,104
Operating and maintenance	75,883
Taxes and insurance	23,263
Depreciation	121,251
Interest	<u>72,066</u>
Total Expenses	<u>451,060</u>
Change in net position	(36,857)
Net position (deficiency), beginning of year	<u>(599,772)</u>
Net position (deficiency), end of year	<u>\$(636,629)</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
STATEMENT OF CASH FLOWS PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013**

**PROPERTY FUND
BRISAS DE LOÍZA PROJECT**

Cash flows from operating activities:

Change in net position	\$(36,857)
Adjustments to reconcile change in net position to net cash provided by operating activities:	
Depreciation	121,251
Bad debt expense	1,426
Increase or decrease in:	
Other assets	(4,879)
Accounts payable and accrued expense	<u>11,731</u>
Net cash provided by operating activities	<u>92,672</u>

Cash flow from investing activities:

Interest deposited on replacement reserve	(1,668)
Withdrawal from replacement reserve	16,725
Increase in other reserve	(140)
Deposits to replacement reserve	(22,500)
Purchase of property and equipment	<u>(25,586)</u>
Net cash used by investing activities	<u>(33,169)</u>

Cash flows from financing activities:

Mortgage principal payments	<u>(35,482)</u>
Net cash used by financing activities	<u>(35,482)</u>

Net decrease in cash 24,021

Cash, beginning of the year 40,474

Cash, end of the year \$ 64,495

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

1. ORGANIZATION

The Municipality of Loíza (the Municipality) is a political and legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession, existence and legal personality separate and independent from the governmental of the Commonwealth of Puerto Rico.

The municipal government is comprised of the executive and legislative bodies, which are elected every four years in the Puerto Rico general elections. The executive power is exercised by the Mayor and the legislative power by the Municipal Legislative Body, which has thirteen members.

The Municipality provides the following services to its community: health, public works, education, public safety, housing, community and social services, welfare, culture and recreation, as well as many other general and administrative services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Municipality relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). The more significant policies of the Municipality are described below.

Reporting entity

A reporting entity consists of the primary government, component units, and other organizations that are included to ensure that financial statements are not misleading. The primary government of the Municipality consists of all funds and departments that are not legally separate from the Municipality. For the Municipality of Loíza, these include various services such as police protection, recreation (including parks), street maintenance and repair, sanitation, and general administrative services. The operation of each of these activities is directly controlled by Municipality's Legislative Body through the budgetary process.

Component units are legally separate organizations for which the Municipality is financially accountable. The Municipality has no component units.

Government wide and fund financial statements

Basic financial statements include both governments-wide and fund financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide statements

The government-wide financial statements (consists of the statement of net position and the statement of activities) these statements report information on all the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are supported mainly by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Program-specific capital and operating grant and contributions consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Capital grants and contributions consist of capital assets or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Restricted capital and operating grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

Fund financial statements

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

The Municipality reports the following major governmental funds:

A) General Fund

This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B) Debit service fund

The fund accounts for resources accumulated and payments made for principal and interest on long term general obligation debt of governmental funds.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statement of Net Position and the Statement of Activities, both government and business type activities, are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Under this method revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, except for debt service, compensated absences and claims and judgments expenditures which are reported when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, than unrestricted resources as they are needed.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus, basis of accounting and financial statement presentation (continued)

Proprietary fund financial statements include a statement of net position, a statement of revenues, expenses and changes in fund nets, and statements of cash flows for the proprietary fund which include a low income housing project know as Brisas De Loíza Project.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are include on the statement of net assets. The statement of revenues, expenses and change in fund net position present increases (revenues) and decrease (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary fund are those revenues that are generated from the primary operating of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Cash, cash equivalents, cash with fiscal agent and investments

The Municipality's finance director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in interest bearing deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund as interest income.

Cash with fiscal agent in the governmental fund consists of unused proceeds from bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Municipal Revenue Collection Center (CRIM) and restricted for the payment of the Municipality's debt service, as established by law.

The Municipality considers all investments with an original maturity of three months or less to be cash equivalents.

Interfund receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). Interfund receivables and payables between funds within the governmental activities are eliminated in the statement of net position.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the government-wide financial statements.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. When historical cost is not available it is estimated using historic sales of the year of the acquisition of the related capital assets.

Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

Infrastructure	25 - 50 years
Building and building improvement	20 - 50 years
Furniture and fixtures	5 - 10 years
Vehicles and equipment	3 - 20 years

Fund balance

The fund balance amounts are reported as nonspendable restricted, committed, assigned and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described follows:

- ❖ **Nonspendable** – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, long-term balances of loans and notes receivable.
- ❖ **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue sources and restrict its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- ❖ **Committed** – Represent resources used for specific purposes, imposed by formal action of the entity's highest level of decision making authority (governing body through resolutions) and can only be charged by similar resolutions, no later than the end of the fiscal year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund balance (Continued)

- ❖ **Assigned** - Represent resources intended to be used by the entity for specific purposes but do not meet the criteria to be classified as restricted or committed (generally resolutions approved by the governing body). Intent can be expressed by the governing body, or by an official or body to which the governing body delegates authority in conformity with the bylaws of the Authority. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- ❖ **Unassigned** - Represent the residual classification for the entity's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purpose for which amounts had been restricted, committed, or assigned.

Risk financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2013 amounted to approximately \$175,642. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$186,268 for workers compensation insurance covering all municipal employees.

Compensated absences

Employees accumulate vacation leave at a rate of 2.5 days per month up to maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum 90 days. In the event of employee resignation, the employee is paid for accumulated vacations days up to the maximum allowed.

Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay up to the maximum allowed.

Employees' maximum allowed vacations and vested sick benefits are accounted for in the Statement of Net Position.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Post employment benefits

Pursuant various Acts, the Municipality is required to cover annually the 3% increase (cost of living allowance) in the retirement plan of it's retirees employees. Substantially all of the employees may become eligible for these benefits of they reach normal retirement to while working for the Municipality. For the fiscal year ended June 30, 2013, post employment benefits retirees amounted to \$29,609. These benefits are recorded as expenditures when informed by the retirement plan.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

3. PROPERTY TAX

The personal property tax is self assessed by the taxpayer on a return, which is to be filed by May 15 of each year with the Municipal Revenue Collector Center (the CRIM), a governmental entity created by the Commonwealth of Puerto Rico. Real property tax is assessed by the CRIM on each piece of real state and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated value as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1.

The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Before the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, where by a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers.

This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a liability to the CRIM is recorded at June 30.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

3. PROPERTY TAX (CONTINUED)

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempt amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$3,500 for which no payment is made. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exception from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The rates are 10.23% for real property and 8.23% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property – state	1.03%	1.03%
Additional special property – municipal	3.40%	3.40%
Discounts made by state to tax payer	< .20%>	< .20%>
	<u>10.23%</u>	<u>8.23%</u>

4. VOLUME OF BUSINESS TAX

The municipal license tax is levied annually based on the volume of business of certain businesses and industrial organizations that operate in the Municipality. The tax rates are 1.50% for financing institutions and .50% for the other business institutions. The taxpayers must file a return not later than April 15 of every year and the tax is payable in two installments, due in July 1 and January 1 of the following fiscal year. The amount levied could be paid with a five percent (5%) discount if payment is made on or before the filing date. The Municipality levied and collected during the year ended June 30, 2013, \$322,509 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue, and is presented as a liability in the accompanying financial statements.

5. SALE TAX

Pursuant to an amendment to Puerto Rico Internal Revenue Code, Act 117 of July 4, 2006, the Municipal Legislature approved the Ordinance 6, Series 2006-2007 to establish a city tax contribution, effective November 1, 2006, to 1.5% over all transactions of sales of goods and services made on Loíza's boundaries. According to the Ordinance, these new resources will be principally used in the following activities: repairs and improvements of Municipal roads, infrastructure and sport facilities, construction of curbs and sidewalk, purchases of heavy equipment.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

5. SALE TAX (CONTINUED)

Pursuant to the provisions of the Law Number 80 of July, 29, 2007 and effective August 1, 2007, the citizenship contribution was uniformly established in 1.5%, for all the municipalities in Puerto Rico, of which 1% will be collected by the municipalities and the remaining .5% will be collected by the Treasury Department of the Commonwealth of Puerto Rico. A portion of those funds will be deposited in the Puerto Rico Governmental Development Bank, as a redemption fund, for financing capital projects to the municipalities.

6. GRANTS AND ENTITLEMENTS REVENUE

Grants and entitlements revenue consists of contributions received from certain quasi-public corporations of the Commonwealth of Puerto Rico, such as the Puerto Rico Aqueduct and Sewer Authority and the Puerto Rico Electric Power Authority. Also, the Municipality receives some subsidies from the Commonwealth of Puerto Rico which include, among others, a subsidy for general operations and for the financing of capital improvements. The intergovernmental revenues are recorded in the General fund, except for those that are legally restricted for expenditure for specified purposes which are recorded in other governmental funds.

7. RESTRICTED DEPOSIT

Restricted cash in the business-type activities consists of:

Tenant security deposits	\$ 12,751
Reserve for replacement	142,999
Reserve for taxes and other reserve	17,363
Other reserves	<u>1,397</u>
	<u>\$174,510</u>

Under the regulatory agreement, Project is required to set aside amounts for the replacement of property and other Project expenditures approved by HUD. HUD – Restricted Deposits are held in separate accounts and generally are not available for operating purposes.

Tenant's Security Deposit and its accumulated interest are held in a separate bank savings account in the name of the Project, in compliance with USDA-RD and HUD requirements. Any amounts not returned to the tenant due to lease violations are transferred to the Project's general operating account.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

Primary Government	Balance <u>June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2013</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ <u>1,687,516</u>	\$ _____	\$ _____	\$ <u>1,687,516</u>
Capital assets being depreciated:				
Infrastructure	21,258,080	1,414,843		22,672,923
Buildings, park and courts	10,979,148			10,979,148
Furniture and fixtures, automobiles and equipment	<u>4,144,743</u>	<u>119,900</u>	<u>(113,425)</u>	<u>4,151,218</u>
Total capital assets being depreciated	<u>36,381,971</u>	<u>1,534,743</u>	<u>(113,425)</u>	<u>37,803,289</u>
Less accumulated depreciation for:				
Infrastructure	(6,399,779)	(534,271)		(6,934,050)
Buildings, parks and courts	(3,587,061)	(244,303)		(3,831,364)
Furniture and fixtures, automobiles and equipment	<u>(2,069,042)</u>	<u>(140,026)</u>	<u>113,425</u>	<u>(2,095,643)</u>
	<u>(12,055,882)</u>	<u>(918,600)</u>	<u>113,425</u>	<u>(12,861,057)</u>
Total depreciable capital assets, net	<u>24,326,089</u>	<u>616,143</u>	_____	<u>24,942,232</u>
Governmental activities capital assets net	<u>26,013,605</u>	<u>616,143</u>	_____	<u>26,629,748</u>
Business-type activities:				
Capital assets net being depreciated:				
Land	<u>109,735</u>	_____	_____	<u>109,735</u>
Capital assets being depreciated:				
Building and improvements	3,143,617	16,724		3,160,341
Equipment	<u>320,550</u>	<u>8,862</u>	_____	<u>329,412</u>
	3,464,167	25,586		3,489,753
Less accumulated depreciation:				
Building and improvements and equipment	<u>(2,470,702)</u>	<u>(121,251)</u>	_____	<u>(2,591,953)</u>
Total depreciable capital assets, net	<u>993,465</u>	<u>(95,665)</u>	_____	<u>897,800</u>
Business activities capital assets, net	<u>1,103,200</u>	<u>(95,665)</u>	_____	<u>1,007,535</u>
	<u>\$ 27,116,805</u>	<u>\$ 520,478</u>	\$ _____	<u>\$27,637,283</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

8. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs of the Municipality as follows:

	Governmental Activities	Business-Type Activities
General administration	\$348,782	
Public safety	57,877	
Public works	316,672	
Education, culture and recreation	49,736	
Health, sanitation and welfare	106,699	
Public relation, tourism and citizen affairs	38,834	
Housing	<u> </u>	<u>\$121,151</u>
Total depreciation expense	<u>\$918,600</u>	<u>\$121,151</u>

9. LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2013 was as follows:

Primary Government Governmental activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and notes	\$ 9,167,000	\$3,430,000	\$(951,900)	\$11,645,100	\$1,034,900
Notes Payable CRIM - Law 42	749,440			749,440	20,640
Compensated absences	1,955,232	305,387		2,260,619	2,260,619
Legal settlement	<u>505,904</u>	<u> </u>	<u> </u>	<u>505,904</u>	<u>505,904</u>
Total	12,377,576	3,735,387	(951,900)	15,161,063	3,822,063
Business-type activities:					
Mortgage payable	<u>1,906,119</u>	<u> </u>	<u>(35,482)</u>	<u>1,870,637</u>	<u>38,549</u>
Total	<u>\$14,283,695</u>	<u>\$3,735,387</u>	<u>\$(987,382)</u>	<u>\$17,031,700</u>	<u>\$3,860,612</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

9. LONG-TERM DEBTS (CONTINUED)

Governmental activities:

Bonds and notes:

\$451,000 series of 1993, payable in annual installments of \$29,000 to \$32,000 until January 1, 2016, interest at 5% due annually.	\$ 91,000
\$100,000 series of 1996, payable in two annual installments of \$7,000 and \$8,000 until January 1, 2015, interest at 4.5% due annually.	15,000
\$1,685,000 series of 1999, payable in annual installments of \$70,000 to \$150,000 until July 1, 2023, interest ranging from 5.88% to 8% due semiannually.	1,160,000
\$655,000 series of 2002, payable in annual installments of \$20,000 to \$55,000 until July 1, 2026, interest at 1.47% due semiannually.	510,000
\$400,000 series of 1997, payable in annual installments of \$30,000 to \$40,000 until July 1, 2016, interest at 6.75% due semiannually.	100,000
\$130,000 series of 2004, payable in annual installments of \$5,000 to \$10,000 until July 1, 2028, interest ranging from 5.0% to 6.5% due semiannually.	85,000
\$360,000 series of 2011, payable in an installment of \$45,000 to \$65,000 on July 1, 2017, interest at 6% due annually.	275,000
\$95,000 series of 2004, payable in annual installments of \$3,000 to \$7,000 until July 1, 2028, interest at 1.72% due semiannually.	75,000
\$455,000 series of 2004, payable in annual installments of \$15,000 to \$35,000 until July 1, 2028, interest ranging from 5.0% to 6.5% due semiannually.	355,000
\$925,000 series of 2005, payable in annual installments of \$40,000 to \$70,000 until July 1, 2024, interest at 1.72% due semiannually.	660,000
\$820,000 series of 2007, payable in annual installments of \$15,000 to \$70,000 until July 1, 2032, interest at 1.72% due annually.	755,000
\$1,155,000 series of 2008, payable in annual installments of \$115,000 to \$160,000 until July 1, 2017, interest ranging at 1.72% due semiannually.	680,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

9. LONG-TERM DEBTS (CONTINUED)

Governmental activities:

Bonds and notes:

\$900,000 series of 2008, payable in two annual installments of \$165,000 and \$180,000 until July 1, 2014, interest at 1.72% due semiannually.	\$ 345,000
\$135,000 series of 2008, payable in annual installments of \$5,000 to \$20,000 until July 1, 2023, interest at 1.72% due semiannually.	115,000
\$445,000 series of 2008, payable in one annual installment of \$105,000 at July 1, 2013, interest at 1.72% due annually.	105,000
\$935,000 series of 2012 payable in annual installments of \$130,000 to \$165,000 until July 1, 2016 interest at 6% due semiannually.	585,000
\$1,033,000 special obligation note series 2012, payable in month installments ranging from \$135,900 to \$181,400 until July 1, 2017, interest at 6% due semiannually.	789,100
\$820,000 series of 2012, payable in annual installments ranging from \$20,000 to \$70,000 through July 1, 2031 interest at 6% due semiannually.	800,000
\$735,000 special obligation bonds series 2011, payable in annual installments of ranging from \$15,000 to \$65,000 until July 1, 2035 interest at 6% due semiannually.	715,000
\$1,535,000 series of 2012 payable in annual installments ranging from \$20,000 to \$125,000 until July 1, 2037 interest ranging from 6% to 7% due semiannually.	1,535,000
\$1,895,000 series of 2012 payable in annual installments ranging from \$45,000 to \$170,000 until July 1, 2032 interest ranging from 6% to 7% due semiannually.	<u>1,895,000</u>

Total bonds and notes	<u>11,645,100</u>
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Business type-activities:

Two mortgage notes collateralized with land and building, payable in monthly installment of \$4,802 and \$1,312, including interest at an annual rate of 9% 6.87% through December 2051.	<u>1,870,637</u>
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\$13,515,737

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

9. LONG-TERM DEBTS (CONTINUED)

The annual debt service requirements to maturity bonds and notes payables of June 30, 2013 are as follows:

Governmental –type Activities:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Aggregate Payment</u>
2014	\$ 1,034,900	\$ 501,028	\$ 1,535,928
2015	1,017,000	576,462	1,593,462
2016	887,000	629,789	1,516,789
2017	921,800	561,581	1,483,381
2018	780,400	503,557	1,283,957
2019-2023	2,282,000	2,043,428	4,325,428
2024-2028	2,110,000	1,276,537	3,386,537
2029-2033	1,942,000	595,698	2,537,698
2034-2038	<u>715,000</u>	<u>119,525</u>	<u>834,525</u>
	<u>\$11,690,100</u>	<u>\$6,807,605</u>	<u>\$18,497,705</u>

Business-type activities:

Two mortgage notes are payable in monthly installments of \$4,802 and \$1,310 including interest at an annual rate of 9% and 6.857% (reduce to 1%) through December 2051.

Mortgage payable consist of permanent residence loans provided by USDA–Rural Development. The land and building of the Project collateralized the mortgage note.

Mortgage notes payable mature as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 38,549	\$ 34,795
2015	42,089	31,255
2016	45,956	27,388
2017	50,180	23,164
2018	54,792	18,552
Thereafter	<u>1,639,071</u>	<u>536,801</u>
	<u>\$1,870,637</u>	<u>\$671,955</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

9. LONG-TERM DEBTS (CONTINUED)

Note payable – CRIM Law 42

Note payable of \$749,440 represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The CRIM will retain the principal and interest from the property taxes advances. The amounts retained by CRIM will be remitted to GDB on July 1 of each year through 2032. The repayment agreement is payable in semi-annual aggregate principal installments of \$33,348 including an interest rate of 6.187%.

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 20,640	\$ 46,057	\$ 66,697
2015	21,937	44,760	66,697
2016	23,315	43,382	66,697
2017	24,780	41,917	66,697
2018	26,337	40,360	66,697
2019-2023	158,690	174,797	333,487
2024-2028	215,215	118,272	333,487
2029-2032	<u>258,526</u>	<u>41,614</u>	<u>300,140</u>
	<u>\$749,440</u>	<u>\$551,159</u>	<u>\$1,300,599</u>

10. RETIREMENT SYSTEM

Defined Benefit Pension Plan

The Employees' Retirement System of the Commonwealth and its instrumentalities (the "Retirement System"), created pursuant to Act. No. 447 of May 15, 1951, as amended, is a cost-sharing multiple employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth. All regular employees of the Municipality hired before January 1, 2000 and under 55 years of age at the date of employment became members of the Retirement System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least ten years of service to receive non-occupational disability benefits.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

10. RETIREMENT SYSTEM (CONTINUED)

Defined Benefit Pension Plan (Continued)

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary.

Defined Contribution Plan

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among others, a defined contribution savings plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan and are rehired on or after January 1, 2000 become members of a Program as a condition to their employment received a refund of their contributions. In addition, employees who at December 31, 1999 were participants of the defined pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semi-annually.

The Municipality is required by Act No. 305 to contribute 9.275% of the participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

10. RETIREMENT SYSTEM (CONTINUED)

Defined Contribution Plan (Continued)

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump-sum to his/her beneficiaries. Participants have the option of a lump-sum or purchasing an annuity contract in case of permanent disability.

Total employees and employer contributions to the above mentioned plans during the year ended June 30, 2013 amounted to approximately \$284,965 and \$323,513, respectively. This amount represented the required contribution for the corresponding year.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2013, a copy of which can be obtained from the Retirement System.

11. CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures which may be disallowed by the grantor cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

The Municipality is defendant and/or codefendant in several litigations arising out of the normal Municipality's operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations will not have a material adverse effect on the Municipality's financial position .

12. SUBSEQUENT EVENTS

On April 4, 2013 the Legislature of the Commonwealth of Puerto Rico issued the Act. No. 3, which amends the previously issued Act 447 of 1951 ("Retirement System Act"). This Act makes significant changes to the Employees Retirement System of the Commonwealth of Puerto Rico Trust created by the Act 447 of May 15, 1951, as amended, to provide pension and other benefits to retired employees of the Commonwealth of Puerto Rico and its instrumentalities. The changes established in the Act No. 3 will apply to all employees participating in the Retirement System for the period starting in July 1, 2013.

Management has evaluated subsequent events through October 28, 2014, which is the date the financial statements were available to be issued and determined that no material subsequent events require an estimate to be recorded or disclosed as of June 30, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF BUDGETARY COMPARISON
FOR THE YEAR ENDED JUNE 30, 2013

	GENERAL FUND			VARIANCE
	ORIGINAL	AMMENDED		WITH FINAL BUDGET
	<u>BUDGET</u>	<u>BUDGET</u>	<u>ACTUAL</u>	FAVORABLE
				<u>(UNFAVORABLE)</u>
Revenues:				
Taxes:				
Property taxes	\$ 2,823,280	\$ 2,823,280	\$ 3,710,709	\$ 887,429
Municipal tax	1,137,369	1,137,369	352,670	(784,699)
Sales tax	315,627	315,627	197,823	(117,804)
Construction excise tax	580,841	580,841	225,528	(355,313)
Licenses and permits	5,000	5,000	4,850	(150)
Interest	10,000	10,000	30,599	20,599
Rent	80,640	80,640	27,020	(53,620)
Grants and entitlements	6,923,445	6,923,445	7,464,169	540,724
Other	<u>2,089,000</u>	<u>2,089,000</u>	<u>3,370,465</u>	<u>1,281,465</u>
 Total revenues	 <u>13,965,202</u>	 <u>13,965,202</u>	 <u>15,383,833</u>	 <u>1,418,631</u>
Expenditures:				
General administration	7,322,637	7,322,637	8,611,149	(1,288,512)
Public safety	1,212,382	1,212,382	1,346,317	(133,935)
Education, culture and recreational	704,852	704,852	746,956	(42,104)
Public relation, tourism and citizens affairs	825,501	825,501	940,655	(115,154)
Public works and sanitation	2,237,916	2,237,916	3,383,475	(1,145,559)
Health, sanitation and welfare	<u>1,661,914</u>	<u>1,661,914</u>	<u>1,140,392</u>	<u>521,522</u>
 Total expenditures	 <u>13,965,202</u>	 <u>13,965,202</u>	 <u>16,168,944</u>	 <u>(2,203,742)</u>
 Excess of expenditures over revenues	 <u>\$ _____</u>	 <u>\$ _____</u>	 <u>\$ (785,111)</u>	 <u>\$ (785,111)</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2013

1. BUDGETS AND BUDGETARY ACCOUNTING

The Municipality follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed for special revenue funds because effective budgetary control is alternatively achieved through legal and contractual grant requirements provisions.
- 2) On or before May 15, the Mayor submits to the Municipal Legislative Body a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means for financing them.
- 3) Prior to June 13, the budget is legally enacted through passage of an ordinance.
- 4) The Municipal Legislative Body approves, by ordinance budget appropriations by functional basis. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Municipal Legislative Body.
- 5) Unused appropriations for the annual budgeted funds lapse at the end of the year.

The budget is prepared on the budgetary basis of accounting. The actual results of operations, presented in the Statement of Revenues and Expenditures – Budget and Actual General Fund, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2013

2. RECONCILIATION OF GAAP TO BUDGETARY BASIS

Adjustments necessary to reconcile the revenues and expenditures of the General Fund at the end of the year, from the generally accepted accounting principles to budgetary basis, are as follows:

Excess of expenditures over revenues, budgetary basis	\$ (785,111)
Adjustments to accounts payable and accrued expenses to adjust expenses from budgetary basis to modified accrual basis	1,998,831
Adjustments to accounts receivable	<u>(1,067,339)</u>
Excess of revenues and other financial sources under expenditure and other financial sources per generally accepted accounting principle	<u>\$ 146,381</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

	<u>NUMBER</u>	<u>DISBURSEMENT</u>
<u>US Department of Housing and Urban</u>		
<u>Development</u>		
Passed through:		
Municipal Service Administration:		
Community Development Block Grant	14.228	\$ 849,851
Municipality of San Juan Housing Opportunities for Persons with AIDS (HOPWA)	14.241	111,131
Puerto Rico Department of Family:		
Shelter Plus Care	14.238	86,035
ARRA-Homeless Prevention and Rapid Re-Housing Program	14.262	16,651
Direct Program:		
Section 8 – Housing Choice Vouchers	14.871	<u>72,245</u>
		<u>1,135,913</u>
<u>US Department of Health and Human Services</u>		
Passed through:		
PR Department of Family:		
Child Care and Development Block Grant	93.575	<u>133,356</u>
		<u>133,356</u>
<u>US Department of Agriculture</u>		
Passed through:		
PR Department of Education:		
Child and Adult Food Program	10.558	<u>10,383</u>
		<u>10,383</u>
<u>US Department of Energy</u>		
Passed through:		
PR Energy Affairs Administration		
Energy Efficiency and Conservation Grant	81.128	<u>65,838</u>
		<u>65,838</u>
		<u>\$1,345,490</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2013

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Municipality of Loíza and is prepared on the modified accrual basis of accounting. Accordingly, amounts presented in the accompanying schedule agree to amounts presented in the basic financial statements.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

CARLOS R. DIAZ, CPA, PSC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To Honorable Mayor and
Municipality Legislative Body
Municipality of Loíza
Loíza, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Municipality of Loíza, Puerto Rico**, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise **Municipality of Loíza, Puerto Rico's** basic financial statements, and have issued our report thereon dated October 27, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Municipality of Loíza, Puerto Rico's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Municipality of Loíza, Puerto Rico's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Municipality of Loíza, Puerto Rico's** internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs we identified certain deficiencies in internal control that we considered to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We considered the deficiency described in the accompanying schedule of findings and questioned costs to be material weakness (Finding number 2013-01). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



MEMBER:
American Institute of Certified Public Accountants
Puerto Rico Society of Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Municipality of Loíza, Puerto Rico's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned cost as items 2013-01 and 2013-02.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

October 27, 2014
Aguas Buenas, Puerto Rico



Carlos R. Díaz CPA, PSC
License No. 275
Expire December 1, 2015

The stamp No. **E107077** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

CARLOS R. DIAZ, CPA, PSC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To Honorable Mayor and
Municipality Legislative Body
Municipality of Loíza
Loíza, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited **Municipality of Loíza, Puerto Rico's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Municipality of Loíza, Puerto Rico's** major federal programs for the year ended June 30, 2013. **Municipality of Loíza, Puerto Rico's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Municipality of Loíza, Puerto Rico's basic financial statements include the operations of the Brisas de Loíza Project, which had expenditure of \$2,321,697 in federal awards which are not included in the schedule during the year ended June 30, 2013. Our audit, described below, did not include the operations of Brisas de Loíza Project because Municipality of Loíza, Puerto Rico engaged other auditors to perform an audit in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **Municipality of Loíza, Puerto Rico's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Municipality of Loíza, Puerto Rico's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of **Municipality of Loíza, Puerto Rico's** compliance.

Opinion on Each Major Federal Program

In our opinion, **Municipality of Loíza, Puerto Rico** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of **Municipality of Loíza, Puerto Rico** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Municipality of Loíza, Puerto Rico's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Municipality of Loíza, Puerto Rico's** internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Carlos R. Díaz CPA, PSC

License No. 275

Expire December 1, 2015

October 27, 2014
Aguas Buenas, Puerto Rico

The stamp No. **E107078** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued

Qualified

Internal control over financial reporting:

- Material weakness identified? ___yes ___no
- Significant deficiency identified that is not considered to be material weaknesses? ___yes ___no

Noncompliance material to financial statement noted? ___yes ___no

Federal Awards

Internal control over major programs:

- Material weakness identified? ___yes ___no
- Significant deficiency identified that are not considered to be material weakness ___yes ___no

Type of auditor's report issued on compliance for major programs

Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 ___yes ___no

Identification of major programs:

CFA Number(s)

Name of Federal Program

14.228

Community Development Block Grants

Dollar threshold used to distinguish between type A and type B programs:

Audit qualified as low-risk audited? ___yes ___no

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 2013-1 - General Ledger

The Municipality does not have the accounting practices, policies or internal controls in place to provide for the preparation of financial statements, on a timely basis, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"). The accounting system does not provide for a self balancing set of accounts for each fund operated by the Municipality, recording cash and other financial resources, together with all related assets, liabilities, revenues, expenditures and changes in fund balances. Therefore, the financial statements must be prepared using financial information obtained from various departments and accounting records. The records are not integrated, and do not follow a double entry system (debit credits). As a result, the records required significant adjustments in order to present the financial position and results of operations of the Municipality in conformity with accounting principles generally accepted in the United States of America.

The Municipality's accounting system does not provide for a subsidiary ledger of account payable and interfund balance that reconcile to the general ledger account balances.

The continued failure to have an adequate accounting system prevents the Municipality from having current, accurate and reliable financial reports and information necessary for management to take efficient and effective actions, including corrective actions when plans and objectives are not being met.

Recommendation

The Municipality should adopt and implement a plan to convert its accounting system to an integrated system that would allow for the monthly closing of the general ledger, as well as the preparation of year-end financial statements in accordance with accounting principles generally accepted in the United States of America.

This plan should provide for:

- a. Assessment of the financial accounting and reporting needs in order to take the necessary steps to meet the financial reporting requirements of GASB Statements No. 34.
- b. The preparation of periodic financial reports to be submitted to the Finance Director and all other interested entities.
- c. Adequate training of all accounting personnel to improve the understanding of the system and to promote operational efficiency.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 2013-2 - Budget

The Municipality's system of internal control relating to the Budgeting function does not adequately prevent operating management from incurring expenditures in excess of the level of funds appropriated and available. The Municipality closed its fiscal year ended June 30, 2013 with an unreserved fund balance deficiency in the general fund approximately \$5,047,454.

This occurs because the budgeting system does not reflect actual available revenues and therefore cannot prevent the obligation of expenditures for which current resources will not be available.

Article 8.004 (b) on the Municipalities Law establishes that the Municipality cannot obligate or spend funds in excess of the appropriations or the ensuing fiscal year. In addition, according to Chapter IV, Section 17, of the basic Standards, the responsibility of oversight to prevent deficits in any municipal fund rest with the Finance Director.

The continued occurrence of this situation could result in the eventual reduction or elimination of municipal services since future revenues will need to be used to pay for accumulated liabilities.

Recommendation

The Municipality should revise and amend the budget as current information related to collections of budgeted revenues became available.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

NONE

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
EXHIBIT – I
CORRECTIVE ACTION PLAN
FOR YEAR ENDED JUNE 30, 2013**